



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
CRITTENDEN COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2001**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CRITTENDEN COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2001**

The Auditor of Public Accounts has completed the Crittenden County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Cash balances decreased by \$365,978 from the prior fiscal year, resulting in a cash surplus of \$834,552 as of June 30, 2001. Revenues decreased by \$283,619 from the prior year and disbursements increased by \$515,832.

#### **Debt Obligations:**

Capital lease principal agreements totaled \$63,100 as of June 30, 2001. Future principal and interest payments of \$77,733 are needed to meet these obligations.

#### **Report Comment:**

- The County Should Remit Interest Earned Of \$4,858 Back To The Federal Funding Agency

#### **Deposits:**

The county's deposits were not adequately secured by \$35,167 as of June 30, 2001.



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Victor P. Hardin, Crittenden County Judge/Executive

Members of the Crittenden County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Crittenden County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Crittenden County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Crittenden County Hospital, Inc. Other auditors whose report has been furnished to us audited those financial statements, and our opinion expressed herein, insofar as it relates to the amounts included for the Crittenden County Hospital, Inc. is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Crittenden County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Victor P. Hardin, Crittenden County Judge/Executive  
Members of the Crittenden County Fiscal Court

In our opinion, based on our audit and on the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Crittenden County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2002 on our consideration of Crittenden County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Crittenden County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following area of noncompliance:

- The County Should Remit Interest Earned Of \$4,858 Back To The Federal Funding Agency

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 8, 2002



CRITTENDEN COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

**Fiscal Court Members:**

Victor P. Hardin	County Judge/Executive
Roger Simpson	Magistrate
Curt Buntin	Magistrate
William E. Martin, Jr.	Magistrate
Percy Cook	Magistrate
Athena Tabor	Magistrate
Bobbie Don Crowell	Magistrate

**Other Elected Officials:**

Alan Stout	County Attorney
Jerry Gilland	Jailer
Carolyn Byford	County Clerk
Madeline Henderson	Circuit Court Clerk
Wayne Agent	Sheriff
Ronnie Heady	Property Valuation Administrator
Terry Gilbert	Coroner

**Appointed Personnel:**

Roberta Shewmaker	County Treasurer
Beth Belt	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

CRITTENDEN COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$	79,181	
Road and Bridge Fund:			
Cash		496,110	
Jail Fund:			
Cash		2,623	
Local Government Economic Assistance Fund:			
Cash		66,939	
North Pennyryle E-911 Board Fund:			
Cash		26,822	
Anonymous Gift Fund:			
Cash		135,167	
Payroll Revolving Account - Cash		<u>2,780</u>	\$ 809,622

Special Revenue Fund Type

Federal Emergency Management Agency Grant Fund:

Cash	27,710
------	--------

Other Resources

General Fund Type

Jail Fund:

Amounts to be Provided in Future Years for Jail Capital	
Lease Obligations - Detention Facility Principal Payments (Note 4)	<u>63,100</u>
Total Assets and Other Resources	<u><u>\$ 900,432</u></u>

The accompanying notes are an integral part of the financial statements.

CRITTENDEN COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2001  
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Types

Jail Fund:

Capital Lease Obligation - Principal Payments for Detention Facility (Note 4)	\$	63,100
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Payroll Revolving Account		2,780
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Fund Balances

Unreserved:

General Fund Type

General Fund	\$	79,181	
Road and Bridge Fund		496,110	
Jail Fund		2,623	
Local Government Economic Assistance Fund		66,939	
North Pennyryle E-911 Board Fund		26,822	
Anonymous Gift Fund		<u>135,167</u>	806,842

Special Revenue Fund Type

Federal Emergency Management Agency Grant Fund		<u>27,710</u>
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Total Liabilities and Fund Balances	\$	<u><u>900,432</u></u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

CRITTENDEN COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

		General Fund Type		
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,114,354	\$ 674,651	\$ 1,342,974	\$ 66,835
Transfers In	848,038	178,385	550,394	119,259
Federal Emergency Management Agency Grant Fund				
Grant Receipts	106,185			
Interest	2,098			
Anonymous Gift Fund				
Interest	7,319			
North Pennyryle E-911 Board Fund				
Interest	1,653			
Total Cash Receipts	<u>\$ 3,079,647</u>	<u>\$ 853,036</u>	<u>\$ 1,893,368</u>	<u>\$ 186,094</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,521,112	\$ 757,600	\$ 1,499,490	\$ 189,457
Schedule of Unbudgeted Expenditures	68,775			
Transfers Out	848,038	119,259	178,385	
Capital Lease Principal Paid	7,700			7,700
Total Cash Disbursements	<u>\$ 3,445,625</u>	<u>\$ 876,859</u>	<u>\$ 1,677,875</u>	<u>\$ 197,157</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (365,978)	\$ (23,823)	\$ 215,493	\$ (11,063)
Cash Balance - July 1, 2000	<u>\$ 1,200,530</u>	<u>\$ 103,004</u>	<u>\$ 280,617</u>	<u>\$ 13,686</u>
Cash Balance - June 30, 2001	<u>\$ 834,552</u>	<u>\$ 79,181</u>	<u>\$ 496,110</u>	<u>\$ 2,623</u>

The accompanying notes are an integral part of the financial statements.



CRITTENDEN COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
Fiscal Year Ended June 30, 2001  
(Continued)

General Fund Type			Special Revenue Fund Type
Local Government Economic Assistance Fund	North Pennyrile E-911 Board Fund	Anonymous Gift Fund	Federal Emergency Management Agency Grant Fund
\$ 29,894	\$	\$	\$
			106,185 2,098
		7,319	
	1,653		
\$ 29,894	\$ 1,653	\$ 7,319	\$ 108,283
\$ 74,565	\$ 51,501	\$	\$ 17,274 550,394
\$ 74,565	\$ 51,501	\$ 0	\$ 567,668
\$ (44,671)	\$ (49,848)	\$ 7,319	\$ (459,385)
\$ 111,610	\$ 76,670	\$ 127,848	\$ 487,095
\$ 66,939	\$ 26,822	\$ 135,167	\$ 27,710

The accompanying notes are an integral part of the financial statements.

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Crittenden County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, Crittenden County has included the Crittenden County Hospital, Inc. as a component unit of the reporting entity. The Crittenden County Hospital, Inc. is discretely presented in Appendix B.

The fiscal court is able to impose its will on the governing body of the Crittenden County Hospital, Inc. because they appoint a majority of the governing body. The fiscal court can significantly influence the activities of the board.

Additional - Crittenden County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Crittenden County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Crittenden County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Crittenden County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, North Pennyrite E-911 Board Fund, and the Anonymous Gift Fund.

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Federal Emergency Management Grant Fund of the Fiscal Court is reported as a Special Revenue Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Crittenden County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Crittenden County Industrial Development is considered a related organization of Crittenden County Fiscal Court.

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

The Crittenden County Fiscal Court has entered into an agreement with the City of Marion to create the Marion-Crittenden Industrial Development Authority. The Authority was created for the purpose of serving as an agency to aid in the acquisition, development, and retention of industrial opportunities in Crittenden County.

The Crittenden-Livingston Water District was formed by Crittenden County and Livingston County to facilitate the financing of water projects in the areas adjoining both counties.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

CRITTENDEN COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2001  
 (Continued)

Note 3. Deposits and Investments

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 30, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$35,167 of public funds uninsured and unsecured. In addition, the county did not have a written agreement with the depository institution securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end.

	<u>Bank Balance</u>
Insured by FDIC insurance	\$ 300,000
Collateralized with securities held by pledging depository institution in the county's name	542,098
Uncollateralized and uninsured	<u>35,167</u>
Total	<u><u>\$ 877,265</u></u>

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 4. Detention Facility Capital Lease

The Crittenden County Fiscal Court entered into a lease purchase agreement with the Kentucky Association of Counties Leasing Trust, on October 14, 1993 for the purpose of financing renovations to the Crittenden County Detention Facility. The issue amount of the lease was \$88,000 and the interest rate was 6.24%. Interest and Principal payments are made twice each year during November and May. The balance of the lease as of June 30, 2001 was \$63,100.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001-2002	\$ 3,813	\$ 8,100
2002-2003	3,298	8,700
2003-2004	2,749	9,200
2004-2005	2,165	9,800
2005-5006	1,544	10,400
Thereafter	<u>1,064</u>	<u>16,900</u>
Totals	<u>\$ 14,633</u>	<u>\$ 63,100</u>

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

General Fund

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Voting Machines	10/14/1993	10/14/2003	5.04%	\$ 14,000

Road Fund

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Grader	2/8/2000	2/8/2006	5.34%	\$ 87,914

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 6. Commitments and Contingencies

KADD Lease/Hospital Sublease

The Crittenden County Fiscal Court entered into a lease with the Kentucky Area Development Districts Financing Trust on January 2, 1997 for the purpose of financing the acquisition of a nursing home for the benefit of the Crittenden County Hospital, Inc., in the amount of \$3,100,000. The County then entered into a sublease agreement with the Crittenden County Hospital, Inc. to rent the project for a period of ten years, with an option to renew the sublease. The Crittenden County Hospital, Inc. is responsible for the rental payments and began making payments May 20, 1998. The Crittenden County Hospital, Inc. is in substantial compliance with the sublease agreement. The balance as of June 30, 2001 was \$2,655,000.

Note 7. Transportation Grant

The Ohio River Ferry Authority, Inc. through the Crittenden County Fiscal Court obtained a grant from the Kentucky Transportation Cabinet to provide for the operation of a ferry service across the Ohio River between Crittenden County, Kentucky and Hardin County, Illinois. On November 8, 1994, the Ohio River Ferry Authority, Inc. entered into an agreement with the Cave-In-Rock-Ferry Company, Inc. to operate the ferry service. Grant receipts for fiscal year 2001 were \$477,823 and expenditures for fiscal year 2001 were \$477,823.

Note 8. Industrial Revenue Bonds

On June 16, 1998, the Marion-Crittenden County Industrial Development Authority, a joint venture of the Crittenden County Fiscal Court, entered into a new bond issue for the purpose of constructing an addition to the existing facility owned by Par-4 Plastics, Inc. located in Marion, Kentucky. These bonds will have a 20-year life, with an approximate interest rate of 6.5%. The original agreement required Ross, Sinclaire and Associates, the underwriter, to appropriate \$2,400,000 for the purpose of purchasing from the Marion-Crittenden County Industrial Authority, the Industrial Revenue Bonds, Series 1998 for the total purchase price of \$2,352,000 on or before July 1, 2008. The semi annual payments are to be made on the 1<sup>st</sup> of July and January.

Note 9. Insurance

For the fiscal year ended June 30, 2001, Crittenden County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



CRITTENDEN COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 718,344	\$ 674,651	\$ (43,693)
Road and Bridge Fund	1,331,460	1,342,974	11,514
Jail Fund	58,216	66,835	8,619
Local Government Economic Assistance Fund	71,073	29,894	(41,179)
Totals	<u>\$ 2,179,093</u>	<u>\$ 2,114,354</u>	<u>\$ (64,739)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 2,179,093
Add: Budgeted Prior Year Surplus	470,051
Add: Other Financing Sources	514,296
Less: Other Financing Uses	<u>(7,700)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 3,155,740</u>

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SCHEDULE OF OPERATING REVENUE



CRITTENDEN COUNTY  
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>GOVERNMENTAL FUND TYPES</u>	
<u>Revenue Categories</u>	<u>General Fund Type</u>
Taxes	\$ 369,641
Excess Fees	52,280
License and Permits	76
Intergovernmental Revenues	1,142,071
Charges for Services	21,021
Miscellaneous Revenues	505,064
Interest Earned	<u>24,201</u>
Total Operating Revenue	<u><u>\$ 2,114,354</u></u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



CRITTENDEN COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 344,990	\$ 399,187	\$ (54,197)
Protection to Persons and Property	276,782	300,355	(23,573)
General Health and Sanitation	167,473	115,770	51,703
Social Services	5,500	500	5,000
Recreation and Culture	45,400	45,994	(594)
Roads	1,341,185	937,173	404,012
Airports	5,000		5,000
Other Transportation Facilities and Services	532,204	483,713	48,491
Debt Service			
Capital Projects	64,300	12,102	52,198
Administration	372,906	226,318	146,588
Total Operating Budget - All General Fund Types	\$ 3,155,740	\$ 2,521,112	\$ 634,628
Other Financing Uses:			
Kentucky Area Development			
Districts - Jail Improvements			
Principal on Lease	7,700	7,700	
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 3,163,440</u>	<u>\$ 2,528,812</u>	<u>\$ 634,628</u>

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SCHEDULE OF UNBUDGETED EXPENDITURES



CRITTENDEN COUNTY  
SCHEDULE OF UNBUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>North Pennyrite E-911 Board Fund</u>	<u>Federal Emergency Management Agency Grant Fund</u>
Maps and Roads	\$ 21,501	\$
Ambulance - Donation	30,000	
Disaster and Emergency Services-		
Administrator's Salary		3,469
Administration		13,150
Repair to Sheriff's Vehicle		655
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Totals	<u>\$ 51,501</u>	<u>\$ 17,274</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Victor P. Hardin, Crittenden County Judge/Executive  
Members of the Crittenden County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Crittenden County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 8, 2002. We did not audit the financial statements of the Crittenden County Hospital, Inc. Other auditors audited those financial statements and their report was furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Crittenden County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Crittenden County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 8, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Victor P. Hardin, Crittenden County Judge/Executive  
Members of the Crittenden County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal  
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Crittenden County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Crittenden County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Crittenden County's management. Our responsibility is to express an opinion on Crittenden County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Crittenden County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Crittenden County's compliance with those requirements.

In our opinion, Crittenden County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs.

- Reference Number 2001-1 The County Should Remit Interest Earned Of \$4,858 Back To The Federal Funding Agency

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Crittenden County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Crittenden County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 8, 2002



## FINDINGS AND QUESTIONED COSTS



CRITTENDEN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Crittenden County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Crittenden County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Crittenden County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards programs for Crittenden County are reported in Part C of this schedule.
7. The program tested as a major program was: Federal Emergency Grant Agency Public Assistance Grant.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Crittenden County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

The County Should Have Required The Depository Institution To Pledge Additional Securities Of \$27,848 As Collateral And Entered Into A Written Agreement To Protect Deposits

The County Judge/Executive contacted Fifth Third Bank and was advised that they had adequate pledges to protect deposits, but the bank was unable to document this. The county then moved its money as soon as it could and corrected this finding.

CRITTENDEN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2001  
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

Reference Number 2001-1

The County Should Remit Interest Earned Of \$4,858 Back To The Federal Funding Agency

During testing of the FEMA grant for compliance in Accordance with OMB Circular A-133, we noted that \$5,058 in interest had been earned on the FEMA grant monies as of February 2002. CFR 44 Section 13 states that all interest earned on federal funds less \$100 per year for administrative purposes must be remitted back to the federal funding agency. The State Agency-The Kentucky Division of Emergency Management was unaware of this requirement, as was the County. We recommend the County remit \$4,858 (\$5,058 less \$200) back to FEMA to be in compliance with CFR 44.

Questioned Costs -

\$4,858.

*Crittenden County Judge/Executive Victor P. Hardin's Response:*

*We are immediately paying the amount of interest due on our FEMA Grant.*

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



CRITTENDEN COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Public Assistance Grant (CFDA #83.544)	FEMA 1310-DR-KY	<u>\$ 347,081</u>

CRITTENDEN COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.



CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

CRITTENDEN COUNTY FISCAL COURT

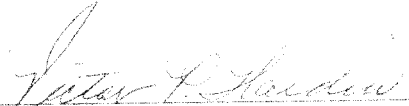
Fiscal Year Ended June 30, 2001

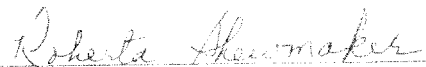


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
CRITTENDEN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Crittenden County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes

  
\_\_\_\_\_  
Name  
County Judge/Executive

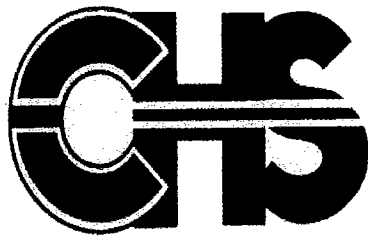
  
\_\_\_\_\_  
Name  
County Treasurer



CRITTENDEN COUNTY HOSPITAL, INC.

For The Years Ended September 30, 2001 and 2000





**Crittenden  
Health  
Systems**

*"Caring for the Community"*

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**  
for the years ended September 30, 2001 and 2000



**& ASSOCIATES, llp**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

**CRITTENDEN COUNTY HOSPITAL, INC.**

**FINANCIAL STATEMENTS**

**September 30, 2001 and 2000**

**Contents**

Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	2
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	8





**EW & ASSOCIATES, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS &  
BUSINESS CONSULTANTS

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GINA G. SLOAN, CPA  
LINDA C. OVERBY, CPA  
EVE B. HOLDER, CPA

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Crittenden County Hospital, Inc.  
Marion, Kentucky

We have audited the accompanying balance sheets of Crittenden County Hospital, Inc. (a not-for-profit corporation) as of September 30, 2001 and 2000, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crittenden County Hospital, Inc. as of September 30, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*EKW & Associates, LLP*

Owensboro, Kentucky  
February 7, 2002

101 East Main Street • P.O. Box 528 • Morganfield, Kentucky • 42437  
Ph: 270-389-1239 • Fax: 270-389-4662

100 West Third Street • P.O. Box 1824 • Owensboro, Kentucky • 42302-1824  
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	<u>2001</u>	<u>2000</u>
<b>Liabilities and Net Assets:</b>		
Current liabilities:		
Current portion-notes payable	\$ 320,300	\$ 331,904
Accounts payable	501,911	552,290
Accrued expenses	684,708	621,628
Estimated third-party settlements	1,617,570	1,560,278
Other current liabilities	<u>426,626</u>	<u>653,275</u>
Total current liabilities	<u>3,551,115</u>	<u>3,719,375</u>
Long-term debt, net of current portion	<u>7,678,526</u>	<u>7,994,128</u>
Total liabilities	<u>11,229,641</u>	<u>11,713,503</u>
<b>Net Assets:</b>		
Unrestricted	<u>10,637,034</u>	<u>11,395,868</u>
Total net assets	<u>10,637,034</u>	<u>11,395,868</u>
	<u>\$ 21,866,675</u>	<u>\$ 23,109,371</u>

The accompanying notes are an integral part of these financial statements

**CRITTENDEN COUNTY HOSPITAL, INC.**

**Statements of Operations**

**Years Ended September 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
<b>Unrestricted revenues, gains and other support:</b>		
Net patient service revenue	\$ 20,440,229	\$ 21,146,775
Other operating revenue	399,027	363,112
Investment income	472,896	355,135
Gain on sale of equipment	<u>12,497</u>	<u>-</u>
 Total unrestricted revenues, gains and other support	 <u>21,324,649</u>	 <u>21,865,022</u>
 <b>Expenses:</b>		
Salaries and benefits	11,581,560	10,431,797
Supplies and other	5,274,622	5,005,491
Other professional services	1,875,313	2,152,130
Depreciation and amortization	1,341,326	1,393,268
Interest	544,606	615,654
Provision for bad debts	840,815	994,128
Other operating expenses	<u>208,014</u>	<u>163,760</u>
 Total expenses	 <u>21,666,256</u>	 <u>20,756,228</u>
 Excess (deficiency) of revenues, gains and other support over expenses	 (341,607)	 1,108,794
 Change in net unrealized gains and (losses) on investments other than trading securities	 (473,777)	 78,128
Contributions from Hospital Auxiliary and others	<u>56,550</u>	<u>1,200</u>
 Increase (decrease) in unrestricted net assets	 <u>\$ (758,834)</u>	 <u>\$ 1,188,122</u>

The accompanying notes are an integral part of these financial statements

**CRITTENDEN COUNTY HOSPITAL, INC.**

**Statements of Changes in Net Assets**

**Years Ended September 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
<b>Unrestricted net assets:</b>		
Excess (deficiency) of revenues, gains and other support over expenses	\$ (341,607)	\$ 1,108,794
Net unrealized gain (loss) on investments, other than trading securities	(473,777)	78,128
Contributions from Hospital Auxiliary and others	<u>56,550</u>	<u>1,200</u>
Increase (decrease) in unrestricted net assets	<u>(758,834)</u>	<u>1,188,122</u>
<b>Temporarily restricted net assets:</b>	<u>-</u>	<u>-</u>
<b>Permanently restricted net assets:</b>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(758,834)	1,188,122
Net assets, beginning of year	<u>11,395,868</u>	<u>10,207,746</u>
Net assets, end of year	<u><u>\$ 10,637,034</u></u>	<u><u>\$ 11,395,868</u></u>

The accompanying notes are an integral part of these financial statements

**CRITTENDEN COUNTY HOSPITAL, INC.**

**Statements of Cash Flows**

**Years Ended September 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
<b>Cash flows from operations:</b>		
Excess of revenues, gains and other support over expenses	\$ (758,834)	\$ 1,188,122
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,341,326	1,393,268
Net realized and unrealized gains (losses) on investments, other than trading	274,995	(78,128)
(Gain) loss on sale of equipment	(12,447)	-
<b>(Increase) decrease in operating assets:</b>		
Patient accounts receivable	(835,322)	(532,338)
Inventories	(81,443)	(145,098)
Other current assets	42,498	(85,926)
<b>Increase (decrease) in operating liabilities:</b>		
Accounts payable	(50,379)	219,600
Accrued liabilities	(160,925)	475,442
Estimated third-party payor settlements	57,292	260,692
<b>Net cash (used) provided by operations:</b>	<u>(183,239)</u>	<u>2,695,634</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1,383,617)	(938,465)
Proceeds from the sale of property and equipment	12,447	-
Investment transactions, net	144,938	(965,413)
<b>Net cash used by investing activities:</b>	<u>(1,226,232)</u>	<u>(1,903,878)</u>

Continued

**CRITTENDEN COUNTY HOSPITAL, INC.**

**Statements of Cash Flows**

**Years Ended September 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
<b>Cash flows from financing activities:</b>		
Principal payments on long-term debt	<u>(327,206)</u>	<u>(440,194)</u>
<b>Net cash (used) by financing activities:</b>	<u>(327,206)</u>	<u>(440,194)</u>
Net increase (decrease) in cash and cash equivalents	(1,736,677)	351,562
Cash and cash equivalents, beginning of year	<u>2,255,493</u>	<u>1,903,931</u>
Cash and cash equivalents, end of year	<u>\$ 518,816</u>	<u>\$ 2,255,493</u>
 <b>Supplemental disclosures:</b>		
Cash interest paid	<u>\$ 544,606</u>	<u>\$ 615,654</u>
 <b>Non-cash investing and financing activities:</b>		
Property contributed from Hospital Auxiliary and others	<u>\$ 56,550</u>	<u>\$ 1,200</u>

The accompanying notes are an integral part of these financial statements

# **CRITTENDEN COUNTY HOSPITAL, INC.**

## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies:**

The following is a summary of significant accounting policies of Crittenden County Hospital, Inc.

#### **A. Organization:**

Crittenden County Hospital, Inc. ("Hospital"), located in Marion, Kentucky, is a not-for-profit organization operating an acute care hospital, two nursing facilities, and a home health agency. Admitting physicians are primarily practitioners in the local area. The hospital was incorporated in Kentucky in 1942 and is managed by Quorum Health Resources, LLC.

#### **B. Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **C. Cash and Cash Equivalents:**

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

At September 30, 2001, Crittenden County Hospital, Inc. maintained deposits of \$749,907 at four financial institutions. Of these bank balances, \$219,867 was covered by federal depository insurance and \$530,040 was neither insured nor collateralized as of September 30, 2001, however, management believes that the credit risk relating to these deposits is minimal.

#### **D. Investments and Investment Income:**

Investments are primarily carried through two commercial banks' agency accounts which consist of various investment pools, accounted for by units, and specific investment instruments. These investment pools consist of marketable debt and equity securities and are measured at fair value in the balance sheet.

Continued



# CRITTENDEN COUNTY HOSPITAL, INC.

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies, Continued:

#### E. Assets Whose Use is Limited:

Assets whose use is limited include assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; assets set aside in accordance with agreements with third-party payors; and assets held by trustees under indenture agreements.

#### F. Inventories:

Inventories are carried at lower of cost (primarily first-in, first-out) or market.

#### G. Property and Equipment:

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### H. Goodwill:

Goodwill and other intangibles are being amortized on a straight-line basis over periods estimated to be benefitted, not exceeding 40 years. Management reviews intangible assets for possible impairment whenever events and changes in business circumstances indicate the carrying value of the assets may not be recoverable.

Continued

# **CRITTENDEN COUNTY HOSPITAL, INC.**

## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies, Continued:**

#### **I. Temporarily and Permanently Restricted Net Assets:**

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors and are to be maintained by the Hospital in perpetuity.

#### **J. Excess of Revenues Over Expenses:**

The statement of operations includes excess of revenues over expenses. Changes in unrestricted assets, which are excluded from the excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

#### **K. Donor-Restricted Gifts:**

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Continued

# **CRITTENDEN COUNTY HOSPITAL, INC.**

## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies, Continued:**

#### **L. Charity Care:**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

#### **M. Compensated Absences:**

Compensated absences are accrued when the employee's right to receive compensation for future absences is earned.

#### **N. Income Taxes:**

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes.

### **2. Net Patient Service Revenue:**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

#### **A. Medicare:**

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services and certain outpatient services are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Effective August 1, 2000, Medicare initiated the Outpatient Prospective Payment System, whereby certain outpatient services will be paid on a prospective basis. There are certain provisions that allow for transitional payments through 2004 if payments under the prospective method fall below what would have been paid on the cost method. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

Continued

# CRITTENDEN COUNTY HOSPITAL, INC.

## Notes to Financial Statements

### 2. Net Patient Service Revenue, Continued:

#### B. Medicaid:

The Commonwealth of Kentucky Department for Medicaid Services reimburses the Hospital for care rendered to Medicaid patients based on a facility-specific per-diem amount for inpatient care. Certain outpatient services related to Medicaid beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports filed by the Hospital and audits thereof by Medicaid. The Kentucky General Assembly enacted legislation which established a healthcare provider tax for the purpose of funding the Medicaid program. The tax on hospitals is 2.5 percent of net patient service revenue and contributions received. Long-term care services are taxed at 2 percent. In addition, this legislation provides for reimbursement to hospitals for indigent care patients below 150 percent of the federal poverty level through a Medicaid Assistance Indigent Trust Fund. Inpatient indigent days are paid at the hospitals' Medicaid inpatient per-diem amount. Outpatient visits are converted to inpatient day equivalents. The Hospital incurred \$434,444 and \$459,860 in provider taxes for the years ended September 30, 2001 and 2000, respectively.

#### C. Indigent Care Reimbursements:

In addition to the Medicaid cost reimbursement program, the Kentucky 1992 General Assembly created a disproportionate share Medicaid plan for indigent care. The distribution formula for indigent care under the plan gives special consideration to care provided to Medicaid patients beyond 14 days, services provided to indigents below 150% of the federal poverty level, and the percentage of each facility's Medicaid patient volume to its total patient volume. The Hospital received payments under the disproportionate share plan in the amounts of \$10,708 and \$114,037 for the years ended September 30, 2001 and 2000, respectively.

The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements is a discount from established charges.

Continued

# CRITTENDEN COUNTY HOSPITAL, INC.

## Notes to Financial Statements

### 3. Investments:

#### Assets Whose Use Is Limited:

The composition of assets limited as to use at September 30, 2001 and 2000 is set forth in the following table. Investments are stated at fair value.

	<u>2001</u>	<u>2000</u>
By board for capital acquisition:		
Cash equivalents	\$ 140,608	\$ 35,794
U. S. Treasury obligations	2,071,525	2,404,319
U. S. Agency obligations	-	246,875
Mutual funds	1,725,111	2,877,322
Common stocks	1,288,844	-
Accrued income and other	33,575	48,173
 Held by trustee under indenture agreement		
Trustee agency accounts in commercial bank trust departments	<u>326,899</u>	<u>394,012</u>
	<u>\$ 5,586,562</u>	<u>\$ 6,006,495</u>

### 4. Property and Equipment:

A summary of property and equipment at September 30, 2001 and 2000 follows:

	<u>2001</u>	<u>2000</u>
Land	\$ 212,482	\$ 212,482
Land improvements	641,147	641,147
Building and improvements	11,464,216	11,204,417
Equipment and furniture	10,521,815	9,212,423
Equipment held under capital lease	<u>943,297</u>	<u>943,297</u>
	23,782,957	22,213,766
Less accumulated depreciation and amortization	<u>12,875,130</u>	<u>11,671,859</u>
	10,907,827	10,541,907
Construction in progress	<u>18,705</u>	<u>306,284</u>
Property and equipment, net	<u>\$ 10,926,532</u>	<u>\$ 10,848,191</u>

Depreciation and amortization expense on property and equipment charged to operations was \$1,341,326 and \$1,393,268 in 2001 and 2000, respectively.

Continued

# CRITTENDEN COUNTY HOSPITAL, INC.

## Notes to Financial Statements

### 5. Other Non-current Assets:

Other non-current assets consisted of the following as of September 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Goodwill	\$ 48,047	\$ 49,878
Deferred debt issuance costs	49,237	64,892
Organization costs	<u>-</u>	<u>18,564</u>
	<u>\$ 97,284</u>	<u>\$ 133,334</u>

Amortization expense on intangible assets charged to operations was \$36,050 and \$40,000 in 2001 and 2000, respectively.

### 6. Long-Term Debt and Obligations Under Capital Leases:

A summary of long-term debt and capital lease obligations at September 30, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
6.03% First Mortgage Refunding and Improvement Revenue Bonds of 1995, due annually in amounts ranging from \$195,000 to \$585,000. Final scheduled maturity is January 1, 2016. (1)	\$ 5,410,000	\$ 5,605,000
5.68% Kentucky Economic Development Finance Authority Bond, due in monthly installments of \$14,050 including interest, with final payment November 19, 2000	-	27,902
5.77% KADD Small Issuer's Loan Program (1996), due in semiannual installments including interest, beginning May 20, 1997, with final payment in the amount of \$2,353,900 May 20, 2004	<u>2,655,000</u>	<u>2,764,000</u>
	8,065,000	8,396,902
Unamortized bond discount on 1995 bonds	<u>(66,174)</u>	<u>(70,870)</u>
	7,998,826	8,326,032
Less current maturities	<u>320,300</u>	<u>331,904</u>
Long-Term debt, excluding current maturities	<u>\$ 7,678,526</u>	<u>\$ 7,994,128</u>

Continued

# CRITTENDEN COUNTY HOSPITAL, INC.

## Notes to Financial Statements

### 6. Long-Term Debt and Obligations Under Capital Leases, Continued:

- (1) Under the terms of the 1995 refunding and improvement revenue bond, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The Hospital is also subject to certain restrictive covenants.

Scheduled principal repayments on Long-Term debt and payments on capital lease obligations for the next five years are as follows:

	<b>Long-Term Debt</b>
2002	\$ 320,300
2003	342,100
2004	2,652,600
2005	255,000
2006	270,000
Later years	4,225,000
	<u>\$ 8,065,000</u>

Substantially all of the Hospital's assets are pledged as collateral on its short-term and long-term indebtedness.

### 7. Defined Contribution Pension Plan:

The Hospital maintains a defined contribution pension plan covering substantially all employees not covered by a collective bargaining agreement. Pension plan expense for the years ended September 30, 2001 and 2000 amounted to \$217,250 and \$216,934, respectively.

Effective January 22, 1998, the pension plans of the Hospital were frozen, and replaced by a new 401(k) profit-sharing plan that encompasses all employees of the Hospital and its wholly owned subsidiary. Under the new plan, a participant may make elective deferral contributions to the Plan ranging from 1% to 15% of compensation, not to exceed \$10,500, for 2001 and 2000, respectively, as adjusted annually pursuant to Section 402(g)(1) of the Internal Revenue Code.

Employer matching contributions shall be made to the Plan on behalf of participants who make elective deferral contributions. The Plan states that the matching contribution is calculated as a percentage of eligible contributions, not to exceed 4% of the participant's compensation.

The Plan provides that the Company may make discretionary contributions to be allocated among eligible participants. The Company elected not to make discretionary contributions for 1998. The employer discretionary contribution was discontinued effective January 1, 1999.

Continued

# CRITTENDEN COUNTY HOSPITAL, INC.

## Notes to Financial Statements

### 8. Operating Lease Commitments:

The Hospital leases various equipment and facilities under operating leases expiring at various dates through December 2001. Total rental expense in 2001 and 2000 for all operating leases was approximately \$129,086 and \$102,976.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2001, that have initial or remaining lease terms in excess of one year.

<u>Year ending September 30</u>	<u>Amount to be Paid</u>
2001	<u>\$ -</u>

### 9. Contingencies:

#### A. Letter of Credit:

The Hospital has signed a standby letter of credit with Union Planters Bank used to secure the 1995 bond issue. At September 30, 2001 and 2000, the balance outstanding was zero, respectively.

#### B. Litigation:

The Hospital is involved in litigation arising out of the normal course of business. After consultation with legal counsel, management estimated that these matters will be resolved without material adverse effect on the Hospital's future financial position and results from operations.

### 10. Concentrations of Credit Risks:

The Hospital's operations are located in rural western Kentucky. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. As of September 30, 2001 and 2000 accounts receivable consisted of the following categories of patients and third-party payors:

Continued



# CRITTENDEN COUNTY HOSPITAL, INC.

## Notes to Financial Statements

### 10. Concentrations of Credit Risks, Continued:

	<u>2001</u>	<u>2000</u>
Medicare	38%	39%
Medicaid	25%	24%
Other third-party payors (none over 10%)	22%	24%
Private pay	<u>15%</u>	<u>13%</u>
	<u>100%</u>	<u>100%</u>

### 11. Fair Value of Financial Instruments:

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

**Cash and cash equivalents:** The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

**Investments:** Fair values, which are amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

**Assets limited as to use:** These assets consist primarily of cash and short-term investments and interest receivable. The fair value of these items was estimated using quoted market prices, for similar securities. The carrying amount reported in the balance sheet is fair value.

**Accounts payable and accrued expenses:** The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

**Estimated third-party payor settlements:** The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

**Long-Term debt:** The carrying amount of the Hospital's Long-Term debt as reported in the financial statements approximates its fair value.

Continued

# CRITTENDEN COUNTY HOSPITAL, INC.

## Notes to Financial Statements

### 11. Fair Value of Financial Instruments, Continued:

The carrying amounts and fair values of the Hospital's financial instruments at September 30, 2001 and 2000, are as follows:

	<u>2001</u>		<u>2000</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents \$	518,816	\$ 518,816	\$ 2,258,137	\$ 2,258,137
Assets limited as to use	5,586,562	5,586,562	6,006,495	6,006,495
Accounts payable and accrued expenses	1,613,245	1,613,245	1,827,193	1,827,193
Estimated third-party payor settlements	1,617,570	1,617,570	1,560,278	1,560,278
Long term debt, and capital lease obligations	7,998,826	7,998,826	8,326,032	8,326,032

### 12. Charity Care:

The amount of charges foregone for services and supplies under the Hospital's charity care policy aggregated approximately \$149,742 and \$53,709 in the years ended September 30, 2001 and 2000, respectively.

### 13. Advertising Costs:

Advertising costs are charged to expense as incurred. Advertising expense for the year ended September 30, 2001 and 2000 were \$28,006 and \$52,846, respectively.

### 14. Other Commitments:

On July 28, 1993, the Hospital entered into a management agreement with Quorum Health Resources, LLC. On December 9, 1997 the contract was renewed and extends through July 31, 2003. Management fees approximate \$190,000 per year and are adjustable based on the increase in the Medical Consumer Price Index. Quorum is also directly reimbursed by Crittenden Health Systems for the compensation package for the Chief Executive Officer and the Chief Financial Officer.

Continued

## **CRITTENDEN COUNTY HOSPITAL, INC.**

### **Notes to Financial Statements**

#### **15. Reclassifications:**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.